

VZCZCXRO0783
PP RUEHDBU RUEHLN RUEHVK RUEHYG
DE RUEHEK #1792/01 3550712
ZNR UUUUU ZZH
P 210712Z DEC 06
FM AMEMBASSY BISHKEK
TO RUEHC/SECSTATE WASHDC PRIORITY 8754
INFO RUCNCIS/CIS COLLECTIVE PRIORITY
RUEHBJ/AMEMBASSY BEIJING PRIORITY 1884
RUEHDBU/AMEMBASSY DUSHANBE PRIORITY 1463
RUCPDO/USDOC WASHDC PRIORITY 0539
RHEFDIA/DIA WASHDC PRIORITY
RUEKJCS/OSD WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY
RUEKJCS/JOINT STAFF WASHDC PRIORITY
RUEHGV/USMISSION GENEVA PRIORITY 0426
RUEHVEN/USMISSION USOSCE PRIORITY 2296
RUCNDT/USMISSION USUN NEW YORK PRIORITY 1681
RUEHNO/USMISSION USNATO BRUSSELS BE PRIORITY
RUEHBS/USEU BRUSSELS PRIORITY
RUEHLMC/MILLENNIUM CHALLENGE CORP PRIORITY
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL PRIORITY

UNCLAS SECTION 01 OF 02 BISHKEK 001792

SIPDIS

SENSITIVE
SIPDIS

DEPT FOR SCA/CEN

E.O. 12958: N/A

TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [KG](#)

SUBJECT: KYRGYZ BUNDLE GAS, POWER AND WATER WITH UZBEKISTAN

BISHKEK 00001792 001.2 OF 002

Sensitive but unclassified. Not for Internet distribution.

¶1. (SBU) Summary: Kyrgyz-Uzbek negotiators agreed on a \$100 per thousand cubic meter rate for Uzbek natural gas for 2007, nearly doubling the current price. In response, the Kyrgyz government announced a 44% hike in natural gas rates for consumers to absorb the price increase. In a related deal, Kyrgyzstan will export 1.3 billion kilowatt hours of electricity (plus a lot of water) to Uzbekistan most likely at a relatively low 1.1 cent per kilowatt hour rate. Thus, in spite of President Bakiyev's much publicized visit to Uzbekistan earlier this fall to help facilitate a gas price deal, Uzbekistan appears to come out the clear winner) more natural gas revenue, cheap electricity and a predictable water supply for next year's agricultural season. End summary.

The Raw Deal) More Gas for Much More Money

¶2. (U) Following the conclusion of Kyrgyz-Uzbek negotiations, Kyrgyz Deputy Prime Minister Daniyar Usenov announced that Uzbekistan will supply Kyrgyzstan 850 million cubic meters of natural gas at a rate of \$100 per thousand cubic meters (tcm) through the end of 2007. This amounts to an increase of 100 million cubic meters and a price increase of \$45/tcm over existing 2006 arrangements. As a result of this deal, the Kyrgyz government has announced a 44% increase in 2007 natural gas prices for Kyrgyz consumers to 5.3 soms (13.7 cents) per cubic meter.

¶3. (SBU) If fully implemented, the revised price structure would generate sufficient income to cover the natural gas import costs. Coupled with earnings from electricity exported to Uzbekistan (discussed below), Kyrgyz officials must collect payments, at the new 5.3 som rate, for roughly 60% of the total imported volume in order to cover the \$85

million natural gas bill. This same 60% ratio, using the existing 3.67 soms per cubic meter rate, covers the 2006 natural gas bill. Revenues exceeding the 60% rate could cover operating, infrastructure and other expenses for the Kyrgyz natural gas network, but would not account for theft, reduced or subsidized tariffs and system inefficiencies.

Mixing Water and Electricity

¶4. (U) Uzbekistan also won agreement to time electricity supplies with Uzbekistan's main agricultural season. According to a Kyrgyz electric power station official, this is the first electricity agreement between the two countries since 2003. Kyrgyzstan will provide a guaranteed 1.3 billion kilowatt hours of electricity from May 20 to September 10, ¶2007. As Kyrgyzstan generates the vast majority of its electricity from hydroelectric facilities located on waterways leading into Uzbekistan, the electricity supply schedule provides an even greater benefit to Uzbekistan) a predictable flow of water for use by Uzbek farmers next summer.

¶5. (SBU) Although Kyrgyz media quoted Usenov confirming a 1.1 cent per kilowatt hour price for electricity exports to Uzbekistan for 2007, another source listed a possible 2 cent per kilowatt hour rate. The same Kyrgyz power station official told embassy that the actual electricity rate for Uzbekistan "is still under discussion," but noted that Uzbekistan paid approximately 3.3 cents per kilowatt hour in ¶2003. He could not explain the downward pricing trend, but added that if Kyrgyzstan reaches agreement on electricity exports to Kazakhstan, Kyrgyzstan would have increased leverage over Uzbekistan on the electricity price. The official also claimed that Kyrgyzstan did not officially

BISHKEK 00001792 002.2 OF 002

export any electricity to Uzbekistan in 2006.

The Net Result) Uzbekistan on Top

¶6. (U) Based on available data, Uzbekistan should earn \$85 million in 2007 natural gas revenue from Kyrgyzstan, more than double the estimated \$41.2 million it should receive for 2006 deliveries. The electricity agreement should provide, at the 1.1 cent rate, Kyrgyzstan \$14.3 million in revenue from Uzbekistan. However, it appears the Uzbeks come out winners all around) a doubling of natural gas revenue (with only a 13% increase in supplies), a steady supply of water for the main agricultural season and a cheap source of guaranteed electricity.

Comment

¶7. (SBU) This agreement should relieve Kyrgyz government worries over natural gas supplies for the winter, albeit at the cost of a sharp price increase for consumers. Unless Kyrgyzstan negotiates to sell electricity at 6.5 cents per kilowatt hour to Uzbekistan, Uzbekistan will net more income, and lots of fresh water, from this arrangement. Plus, Uzbekistan may be able to export an equivalent amount of power at higher margins further downstream. Despite lots of bluster, President Bakiyev, Usenov and the rest of the Kyrgyz team failed to prevent an increase in natural gas costs. When the price shock hits Kyrgyz consumers early next year, Bakiyev and Usenov will likely shift the blame elsewhere. However, others in the super-charged political environment will point straight back at the Administration. Deputy Chief of Staff Sadyrkulov has already told us that he is concerned that the price hike will feed into the strained political relationship between the President and Parliament. YOYANOVITCH